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The New York Times
DealBook
Edited by Andrew Ross Sorkin

DECEMBER 8, 2008, 1:55 PM

Tribune Files for Bankruptcy

Updated: The Tribune Company filed for bankruptcy protection in a federal court in Delaware on Monday, as the owner of The Los Angeles Times, The Chicago Tribune and the Chicago Cubs baseball team struggled to cope with mountains of debt and falling ad revenue.

Tribune, which was acquired last year by billionaire real estate investor Samuel Zell, had hired bankruptcy advisers like **Lazard** and the law firm **Sidley Austin** in recent weeks as it negotiated with creditors over debt covenants. (Read the bankruptcy petition here.)

It is only the latest – and biggest – sign of duress for the newspaper industry yet. Several newspaper companies have struggled to cope with declining revenues and mounting debt woes. Tribune has pared back the newsrooms of many of its papers, and it sold off Newsday to **Cablevision**'s Dolan family earlier this year. It is unclear what Tribune's filing means for other newspaper publishers on the brink.

"Over the last year, we have made significant progress internally on transitioning Tribune into an entrepreneurial company that pursues innovation and stronger ways of serving our customers," Mr. Zell, who holds the titles of Tribune chairman and chief executive, said in a statement. "Unfortunately, at the same time, factors beyond our control have created a perfect storm — a precipitous decline in revenue and a tough economy coupled with a credit crisis that makes it extremely difficult to support our debt.

The Tribune Company owns 23 TV stations and 12 newspapers, including two of the eight largest in the country by circulation. As of Sept. 30, The Los Angeles Times had weekday circulation of 739,000 and the Chicago Tribune had 542,000.

Tribune has been trying to sell the Chicago Cubs baseball team; the team's stadium, Wrigley Field; and the company's share in a regional cable sports network. Such a deal, which could bring the company more than $1 billion, has been a crucial part of its strategy since last year.

But the sale – originally expected to take place before the last baseball season – has been delayed by several factors, including the tight credit market.

It is not clear how recent federal allegations of insider trading against Mark Cuban, believed to be the highest bidder, could affect the sale.

In a court filing, Tribune said it had nearly $13 billion in debt, compared to $7.6 billion in assets. Most of that debt was taken on when Mr. Zell acquired the company — a deal he struck using mostly borrowed money. All of the now privately held company's equity is owned by an employee stock-ownership plan, which is likely to get wiped out. (Because the ESOP is relatively new, its losses are likely to be small. When **United Airlines** filed for bankruptcy in 2002, its employee plan, created in the mid-1990s, suffered much bigger losses.)

The company had to contend with hefty interest payments over the next year. In its court filing, Tribune listed a $69.6 million bond issue that was to mature on Monday.

Another pressing problem was a maintenance covenant on some of its debt that limits its borrowings to no more than nine times earnings before interest, depreciation and amortization.

Even if the company continues to make interest payments, failure to maintain that level of debt means technical default – which does not always lead to a bankruptcy filing. Other newspaper publishers have halted making interest payments on their debt, but have yet to file.

Tribune said in a statement that it has enough cash to keep operating as usual. **Barclays**, one of its existing lenders, agreed to amend an existing $300 million financing facility, as well as to provide a $50 million letter of credit. The latter is part of an overall debtor-in-possession financing package, which is usually extended to companies that file for bankruptcy. More details of the DIP financing could not be learned.

The top creditors listed by Tribune in its court filing include big banks like **JPMorgan Chase**, **Merrill Lynch** and **Deutsche Bank**. JPMorgan listed some of the firms it had syndicated its debt to as well; that list comprises private investment firms like **Kohlberg Kravis Roberts**'s KKR Financial, **Highland Capital Management** and **Davidson Kempner Capital Management**.

A CreditSights analyst, Jake Newman, wrote in a research report published last month that Tribune avoided technical default in the third quarter partially through some accounting adjustments. "We think the company will have difficulty meetings its year-end covenant compliance," Mr. Newman wrote.

Tribune hired Lazard several weeks ago to assess its options, these people said. It also hired Sidley, a longtime outside adviser to Tribune that has a well-respected bankruptcy practice as well.

In its filing Monday, Tribune also said that it has retained **Alvarez & Marsal**, a restructuring adviser, as a consultant. Alvarez & Marsal is also advising **Lehman Brothers**, the collapsed investment bank whose filing was the largest corporate bankruptcy in American history.

Tribune's problems have long been reflected in the price of its bonds. Tribune bonds maturing Aug. 15, 2010 with a 4.88 percent coupon traded at $13.25 on Friday, suggesting severe levels of distress.

–Michael J. de la Merced

Tribune's Bankruptcy Filing

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The New York Times
nytimes.com

December 10, 2008

BREAKINGVIEWS.COM

Hard Bargaining at Tribune

By LAUREN SILVA LAUGHLIN and CHRISTOPHER HUGHES

Creditors of the Tribune Company are leaving a margin for error.

The company's senior buyout loans are trading at about 35 cents on the dollar. Assuming that is a proxy for Tribune's enterprise value, the total of its market capitalization and debt, the company is worth a paltry $3.6 billion — a far cry from the $12 billion Sam Zell paid for it a year ago.

As a going concern, its value may be much higher. But creditors have reasons to discount it. Tribune, which filed for bankruptcy on Monday, has two main divisions. Its newspaper business includes The Los Angeles Times, The Chicago Tribune and other newspapers, as well as online and print publications. This business could be worth about $3 billion if its enterprise value was pegged at one times its revenue, in line with the Gannett Company and the McClatchy Company.

The second part of Tribune is its broadcasting and entertainment business, which includes 24 local television stations, a national cable and radio network and other assets. That division would be worth about $2.5 billion if its revenue was put on the same two times multiple as the Sinclair Broadcast Group, the television company. Tribune also has various equity interests, including one in the Food Network, which together could be worth more than $300 million.

Add it all up, and Tribune could be worth about $5.8 billion as a going concern, the equivalent of about 55 percent of its $10.2 billion senior bank debt.

Looked at another way, both Gannett and McClatchy's stocks have tumbled 80 percent or more since Mr. Zell bought Tribune. Add back their debt, generously using its full face value, and the average of the two companies' enterprise values stands at about 55 percent of their average value a year and a half ago.

By that analysis, Tribune should be worth about $6.6 billion today, although the buyout price might have been inflated. By these calculations, it looks like senior lenders, who should receive the lion's share of a company in bankruptcy, are leaving lots of cushion.

That makes sense. The troubles in the newspaper industry could become worse. Tribune's reorganization could take a long time, and there's no clarity yet on how much expenses can be cut.

Senior lenders may have to throw at least a few bones of value to junior debt holders and maybe even to the employee share ownership plan that was supposed to benefit from owning the equity. There is plenty of hard bargaining ahead.

The New Bonus

Investment bankers' bonuses need to come down. And now is the time for the industry to set pay at sharply lower levels.

Taxpayers are angry that bankers will receive any bonus at all this year, especially as banks have benefited directly or indirectly from government bailouts. But the public clamor is not the primary reason banks should change their bonus policies.

The real issue is that the business model of investment banking is undergoing a structural shift.

Traditionally, bankers have taken home 50 percent of their employers' annual revenue in base salary and bonuses. This ratio may dip in good years, leaving more for shareholders. The reverse applies in bad years. Morgan Stanley's ratio, for instance, was 59 percent last year.

Analysts say that the compensation ratios of the worst-performing banks will skyrocket this year, as the revenue denominator in the fraction collapses.

When conditions stabilize, the world will look different. With lower leverage and weaker profits from proprietary trading, banks will need to give their shareholders a higher share of their cash flow to earn a respectable return on equity.

That will leave less for workers. The old 50 percent payout ratio will be too high if shareholders demand a bigger share.

This bonus season is an opportunity to start over. Banks have been cutting headcount, which will help bring down compensation expenses. But revenue has been falling faster than headcount, and bankers have fixed base salaries, too. So bonuses will need to be squeezed disproportionately hard.

Merrill Lynch, for example, is preparing to cut bonuses by 50 percent, though that still looks generous given the company's fate.

The good news is that many of the top brass of investment banking are forgoing bonuses. This should make it easier to take a hard line with the middle ranks and so on down the line. If leaders get nothing, then nothing will look like the norm, and anything else will be — a bonus.

LAUREN SILVA LAUGHLIN and CHRISTOPHER HUGHES

For more independent financial commentary and analysis, visit www.breakingviews.com.

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September 24, 2009

Bondholders to See Tribune Documents

By RITA K. FARRELL

WILMINGTON, Del. — Some bondholders of Tribune Company are being granted access to legal documents to investigate the debt-laden sale of the media company in 2007 to the real estate investor Sam Zell.

Tribune and a committee of unsecured creditors, some of whom were the architects of the buyout, agreed late on Wednesday to provide the requested documents to the bondholders. Tribune creditors blame the leveraged buyout for driving the Tribune into bankruptcy a year after the sale.

The Law Debenture Trust Company, which says it represents 18 percent of Tribune bondholders, will now have immediate access to previously denied documents and e-mail messages related to the sale, according to the Trust's lead lawyer, David S. Rosner.

"The overall point is that we wanted to get discovery to assess the claims arising from the leveraged buyout," said Mr. Rosner, of the New York firm Kasowitz, Benson, Torres & Friedman.

As a result of the agreement, the chief judge of the Delaware Bankruptcy Court, Kevin J. Carey, removed the issue from the court's schedule for Thursday.

Lawyers for the bondholders will look for evidence of a breach of fiduciary duty and fraudulent conveyance to support their assertions that Tribune's banks, advisers, and two shareholder foundations may have placed company property beyond the reach of creditors.

"If the bank debt of $11 billion that resulted from the L.B.O. is knocked out through litigation," Mr. Rosner said in an interview, "that will likely enable the bondholders to be paid because there will be less claims and more value."

Tribune, which owns 16 newspapers, 26 television and radio stations and the Chicago Cubs, filed for Chapter 11 bankruptcy protection in December 2008, declaring assets of $7.6 billion and debt of nearly $13 billion. Objections to the pending sale of the Cubs to the Ricketts family, the owners of TD Ameritrade, are scheduled to be heard at Thursday's hearing.

A spate of high-dollar, high-leverage deals in 2006 and 2007 put hundreds of American newspapers, including many of the biggest, under new ownership. Mr. Zell's Tribune takeover was the biggest of those deals, and it was the first to land in bankruptcy.

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The New York Times

February 19, 2010

Judge Approves Extension for Tribune Reorganization Plan

By RITA K. FARRELL

A federal judge on Thursday gave the Tribune Company more time to file a reorganization plan for exiting Chapter 11 bankruptcy protection.

Chief Judge Kevin J. Carey of the United States Bankruptcy Court in Delaware extended the deadline to March 31 from Feb. 28 after a restructuring specialist hired by Tribune, David Kurtz of Lazard, testified at a hearing that that the company needed time to achieve "a global and hopefully consensual resolution."

Under questioning by a Tribune lawyer, James Bendernagel Jr. of Sidley & Austin, Mr. Kurtz described himself as an "honest broker" and said progress was being made.

Judge Carey said he supported an extension because it "would facilitate moving the case forward."

Creditors generally agreed not to challenge the extension by the judge, who also postponed until April 13 a hearing on a motion filed by a group of bondholders who want an examiner appointed to investigate the leveraged buyout that the real estate tycoon Sam Zell used to take Tribune private in December 2007. In addition, the judge delayed hearing a request from the company's committee of unsecured creditors for permission to pursue litigation against the banks that financed the buyout.

In court papers, the holders of $1.2 billion in subordinated debt contended that the leveraged buyout was a "strange cure for the adverse business environment for media companies" and accused Tribune, which owns The Chicago Tribune, The Los Angeles Times and The Baltimore Sun, among other papers, of transferring property to a receiver that knew the intent was to defraud debtors. The leveraged buyout added $9 billion to Tribune's debt load, driving it into bankruptcy a year later in December 2008.

The paid advisers for the L.B.O. were JPMorgan Chase, Merrill Lynch, Citicorp North America, Bank of America and Barclays Bank. The same banks also became the senior secured lenders for the leveraged buyout, according to court papers.

In objecting to the postponement of the examiner motion, Robert J. Stark, a lawyer for the Wilmington Trust Company, told Judge Carey: "No one is talking to us. No one. I was ejected from the room when I asked to join in the settlement" discussions. He predicted that "if this is put off for 30 days, we're going to have a trial at confirmation time."

After the hearing, Mr. Stark said, "What's going on in this case right now is a value allocation issue between the bonds and the banks," with bondholders claiming the right to most of the estate and the banks to all of it.

"The primary targets of the estate litigation remain at the helm of the company, that being Sam Zell and his colleagues," Mr. Stark said. "All that we heard today is that they're engaged in negotiations with the other primary target, the L.B.O. banks. Having Sam Zell as 'honest broker' between the banks and the bonds is a strange proposition for us."

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Tribune files bankruptcy plan, lenders cry "unfair"

Mon, Apr 12 2010

By Jonathan Stempel

NEW YORK (Reuters) - Tribune Co filed its bankruptcy reorganization plan on Monday, setting the U.S. newspaper publisher up for a showdown with a large group of lenders that called the terms "unfair" and demanded the right to propose a rival plan.

The publisher of the Chicago Tribune and Los Angeles Times and owner of television stations, including superstation WGN filed its Chapter 11 plan with the U.S. bankruptcy court in Wilmington, Delaware.

Tribune's filing came four days after the company announced an accord with some creditors to resolve potential claims tied to its $8.2 billion leveraged buyout in 2007. The plan requires approval by U.S. Bankruptcy Judge Kevin Carey.

But on Monday, a group of roughly two dozen lenders, composed mainly of hedge funds who say they represent $3.6 billion of senior debt, said in a court filing it was "premature and misleading" for Tribune to announce an accord, which they called "dead on arrival" without their support.

Among the group's members are distressed debt investor Oaktree Capital Management LP and Goldman Sachs Loan Partners.

Led by real estate investor Sam Zell, the 2007 buyout saddled Tribune with too much debt as the economy and advertising revenue declined and the Chicago-based company filed for bankruptcy protection on December 8, 2008.

Tribune said its reorganization plan would value the company's equity at $4.1 billion, give senior credit facility lenders control of 91 percent of its stock, and allow it to emerge from Chapter 11 this year.

It also said approval could limit potential litigation after a bankruptcy process that has already cost it more than $100 million in professional fees.

In a statement, Zell called Monday's filing "a significant and positive step forward," while Chief Executive Randy Michaels said in an memo to employees that the plan "gets our capital structure in order and makes our debt manageable."

"IMPOSSIBLY TAINTED," SOME LENDERS SAY

But the dissenting lending group called the proposed accord with other creditors "impossibly tainted" by Tribune's attempt to shield Zell and others from buyout-related claims.

Saying the accord gives a "free pass" to Zell, executives and creditors such as JPMorgan Chase & Co and bondholder Centerbridge Capital Advisors, the group sought court permission to offer a "fairer and less rank" alternative that does not shortchange them by at least $400 million.

They also urged the judge to reject Tribune's effort to extend through April 30 its "exclusive" period to file a reorganization plan without creditor interference.

"This is a 'settlement' made possible with 'other people's money' -- specifically, that of the credit agreement lenders and other current holders of credit agreement claims left holding the bag," the group said.

The lending group said it represents 42 percent of the $8.7 billion of claims under a secured credit agreement.

An official committee of unsecured creditors and distressed debt investor Angelo, Gordon & Co also support Tribune's proposed settlement, while some junior bondholders oppose it.

JPMorgan spokesman Justin Perras declined to comment. Centerbridge did not return a request for comment.

Tribune said a May 20 hearing was set for Carey to consider approval of its "disclosure statement" for the Chapter 11 plan. Approval is needed before shareholders can vote on the plan.

The case is In re: Tribune Co et al, U.S. Bankruptcy Court, District of Delaware, No. 08-13141.

(Reporting by Jonathan Stempel; additional reporting by Emily Chasan, Tom Hals and Robert MacMillan; editing by Robert MacMillan and Andre Grenon)

May 20, 2010

Tribune Facing Legal Battle With Creditors

By REUTERS

WILMINGTON, Del. (Reuters) — The Tribune Company will have to wait another week before its reorganization plan is sent to creditors for a vote, and the plan will have to include letters warning that approval will lead to protracted legal battles, a judge ruled on Thursday.

Holders of both senior and junior claims made it clear at a bankruptcy court hearing that Tribune faced a legal slog before it exited Chapter 11.

The company, which owns The Chicago Tribune and The Los Angeles Times, has proposed turning over its operations to investors holding $8.7 billion in senior loans, while leaving little for other creditors holding more than $3.6 billion in claims.

Those senior loan claims stem from the company's 2007 leveraged buyout that put the real estate developer Sam Zell in control. Bondholders want to pursue legal claims against the sponsors of that deal, who they contend are responsible for landing the company in bankruptcy and wiping out their investments.

Judge Kevin J. Carey gave the company another week to make changes to its disclosure statement to resolve objections, including allowing critics of the plan to include two-page letters.

The company has proposed giving broad releases from potential liabilities and, in return, granting a stake in the company worth about $450 million to senior bondholders. That represents a recovery for those investors of about 35 percent.

Junior bondholders, who would be left empty-handed, say they think the liability claims are worth much more and drafted a letter warning of long court fights if the reorganization plan was not consensual.

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Extension sought in Tribune bankruptcy investigation

Examiner probing 'fraudulent conveyance' wants 15 more days to file report, possibly delaying confirmation hearings

June 23, 2010 | By Michael Oneal, Tribune reporter

The independent examiner charged with investigating claims of "fraudulent conveyance" in the Tribune Co. bankruptcy case asked Wednesday for a 15-day extension for filing his report.

That would probably delay a set of confirmation hearings on the Chicago-based media company's reorganization plan scheduled for the week of Aug. 16 in U.S. Bankruptcy Court in Delaware.

"Although it may delay our confirmation hearing for a short period of time, we are supportive of the request in the interest of enabling the examiner to do a thorough and complete review," Tribune Co. said in a statement.

The examiner, Kenneth Klee, was appointed April 30 and asked to evaluate allegations by junior bondholders that the company's 2007 leveraged buyout was a case of fraudulent conveyance, meaning it left the company insolvent from Day One.

Those claims and millions of pages of documents obtained through the discovery process have been central to the case. They raised the specter that more than $10 billion in claims held by senior creditors could be disallowed and that the architects of the deal — including Tribune Co. Chairman Sam Zell — could be open to accusations of breach of fiduciary duty.

In a court motion Wednesday, Klee blamed his request for more time on "the enormity of the documentary record that had to be reviewed." Based on what he has found so far, he added, his team will need to do more witness interviews than previously expected.

Tribune Co. already has forged a settlement of the charges that gives 91.2 percent of Tribune Co. to senior creditors and 7.4 percent to some junior creditors. That compromise formed the basis of the company's reorganization plan, which is currently out for vote.

Opponents of the plan, however, have said the examiner's report will be key to evaluating whether the settlement is fair. Consequently, if the examiner's motion is delayed, the vote deadline likely would be delayed, pushing out the entire calendar. For how long was unclear.

mdoneal@tribune.com

Newsroom executives promoted

The Chicago Tribune Media Group, the Tribune Co. division that includes the Chicago Tribune, on Wednesday announced the promotion of newsroom executives Joycelyn Winnecke and Jane Hirt.

Chicago Tribune Editor Gerould Kern, a senior vice president, said in a staff memo that Associate Editor Winnecke and Managing Editor Hirt each are adding the title of vice president after 22 months in their posts in recognition of "their exceptional accomplishments and growing responsibility for the company."

The two are taking on added duties, Kern said, crediting them with working together to help make the Chicago Tribune newsroom "a fully integrated operation supporting digital" along with working to increase collaboration with Tribune Co.'s

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WGN-Ch. 9, WGN-AM 720 and CLTV.

Winnecke is chief liaison between editorial, advertising and marketing on developing new revenue streams through Chicago Tribune Media Group content initiatives, special events and programs such as the recently launched Trib Nation consumer outreach project.

Hirt has taken on increased responsibility for the Chicago Tribune day-to-day newsroom operations, said Kern, who indicated he has become more involved in strategic development for the newspaper and other Tribune Co. publications.

— From Tribune staff

Chicago Tribune

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CBS 2 Most Popular Pages

10 Of The Best Free Places In Chicago

- 5 Of The Best Road Trips Around Chicago
- 10 Of Chicago's Best Parks
- Best Places To Take Your Dog In Chicago
- 10 Of The Best Places To Run In Chicago

Jul 26, 2010 8:06 pm US/Central

Examiner Finds Fraud Evidence In Tribune Sale

CHICAGO (Sun-Times Media Wire) — An examiner probing Sam Zell's buyout of Tribune Co. in late 2007 has found evidence of "dishonesty" in the deal's latter stages, a conclusion that could throw the company's 20-month-old bankruptcy case into turmoil.

1 of 1 Click to enlarge

Kenneth Klee, appointed by the U.S. Bankruptcy Court to review the Tribune deal, said in a report submitted late Monday that fraud may have occurred in late 2007. That's when Chicago-based Tribune finalized $3.6 billion in financing to complete the $8.2 billion acquisition that came overwhelmingly from debt.

Klee, a Los Angeles attorney and law professor, appeared to point no finger at Zell. Instead, he concentrated on presentations of Tribune managers and an outside advisory firm, Valuation Research Corp., in preparing financial reports that Klee said did not reflect the media company's deteriorating fiscal state.

He concluded that it is "somewhat likely that a court would conclude" fraud took place. Tribune managers "did not act forthrightly in procuring the solvency opinion issued by VRC," Klee found, adding that "the procurement of the solvency opinion was marred by dishonesty and lack of condor about the role played by Morgan Stanley in connection with VRC's solvency opinion and on the question of Tribune's solvency generally."

Klee noted a pattern in December 2007 "in which Tribune used Morgan Stanley's imprimatur to bolster VRC's solvency opinion and push [the deal] over the goal line, without authorization from Morgan Stanley."

The opinion could induce U.S. Bankruptcy Judge Kevin Carey to disallow some of the more than $10 billion in claims that those lenders have against Tribune. At the least, it provides ammunition for holders of unsecured debt to challenge a reorganization plan that would leave them with no stake in the company.

The main lenders include JPMorgan Chase & Co., Bank of America Corp., Citigroup Inc. and buyout specialists Angelo Gordon & Co. A proposed Tribune reorganization would divide 91 percent control of the company among those lenders.

In a statement, Tribune spokesman Gary Weitman said the report is "a lengthy document and we will defer comment until we've had the opportunity to review it." A Zell spokeswoman had no immediate comment on the contents other than to note his "participation in lengthy interviews" with the examiner.

Klee filed a report of about 600 pages, although additional portions were blacked out because of ongoing disputes with creditor groups over immediate public disclosure. His summary of his findings was published in full.

His entire report, which Klee has been working on since April, is believed to run more than 1,000 pages, and have more than 1,000 exhibits. He took depositions from top Tribune executives, including Zell.

Zell took Tribune Chapter 11 one year after his sale closed, asserting that he could not have foreseen a historic decline in advertising.

Tribune owns the Chicago Tribune, the Los Angeles Times and six other major newspapers, plus 23 television stations and WGN radio and television. A billionaire from real estate and strategic buyouts, Zell put up just $315 million in cash to control the company and installed an employee stock ownership plan as the majority owner.

The sale has led to investigations by the U.S. Labor Department and the Internal Revenue Service, but no charges have been filed.

As with everything else in the complex bankruptcy, how much of the Klee report to release publicly was open to wrangling. Klee told the court on Friday that he was struggling with creditor demands to keep portions confidential until Carey can rule otherwise.

In response, Tribune on Monday asked Carey to order that the report be fully available. Anything less, Tribune said, could delay hearings on its proposed reorganization that are scheduled to begin Aug. 30.

The company hopes to emerge from bankruptcy late this year.

Editor's Picks

- Top 10 Smartest And Dumbest Dog Breeds
- Celebrities On The Spot: Real Or Fake?
- The Tattooed Ladies of Hollywood
- Celebrities Turning 40 In 2010

UPDATE 3-Examiner sees signs of dishonesty in Tribune sale

Tue, Jul 27 2010

* Bankruptcy examiner says saw evidence of 'dishonesty'

* Did not find 'credible evidence' against Zell Group

* Company did not forthrightly procure solvency opinion

* Company 'optimistic' on bankruptcy emergence by year end (Adds Tribune comment; link to Reuters Loan Pricing Corp story, byline)

By Chelsea Emery

NEW YORK, July 27 (Reuters) - The court-appointed examiner investigating Tribune Co's (TRBCQ.PK: Quote, Profile, Research, Stock Buzz) bankruptcy said he found some evidence of dishonesty in the 2007 leveraged buyout of the media company by real estate developer Sam Zell.

In the document summarizing his findings, bankruptcy examiner Kenneth Klee said Tribune did not act forthrightly in getting an independent opinion about the company's solvency. He also said senior management did not "adequately discharge their duties" in preparing financial projections.

Klee did not mention any names.

The company declined to comment on the report saying only in a letter to employees it believed its restructuring plan remained the best way to resolve creditor disputes and it was optimistic it could emerge from bankruptcy by the end of the year.

"Since much of the more than 700-page document remains redacted, including the analysis on which the examiner bases many of his conclusions, we think it is premature to comment further about the report," the company said in the letter, which was also sent to Reuters.

Tribune's businesses include the Chicago Tribune and Los Angeles Times newspapers, as well as television stations such as superstation WGN and WPIX-TV in New York. The company tumbled into bankruptcy after Zell led an $8.2 billion takeover, which saddled it with billions of dollars of debt.

Klee had been tapped to investigate whether real estate developer Zell's leveraged buyout of Tribune left the company insolvent.

Klee said he found evidence that Tribune's senior financial management did not apprise the company's board and special committee of relevant information underlying their October 2007 projections. Independent financial advisory firm Valuation Research Corp relied on that information when it gave a solvency opinion.

Junior bondholders have had a particular interest in the examiner's findings, hoping to find evidence that would lead to the disallowing of billions of dollars of senior claims as Tribune's restructuring plan proposes turning over the company to the lenders who funded the buyout, leaving junior bondholders with nothing.

Klee, however, said he did not find any credible evidence against the large stockholders, lead banks, the financial advisers or the Zell Group.

A representative for junior bondholders was not immediately available to comment.

As part of the leveraged buyout, Tribune assumed some $3.6 billion in debt in what were known as Step Two transactions.

"It is somewhat likely that a court would conclude that the Step Two Transactions constituted intentional fraudulent transfers and fraudulently incurred obligations," Klee said in the report.

Still, "other aspects of management's projections, while aggressive, do not support the conclusion that the senior financial management at Tribune prepared them in bad faith," the report said.

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THE WALL STREET JOURNAL.
WSJ.com

MEDIA & MARKETING | JULY 27, 2010

Tribune Faces New Hurdle in Report

By PEG BRICKLEY, SHIRA OVIDE and MIKE SPECTOR

A bankruptcy investigator lent credence to claims that Tribune Co.'s $8.2 billion buyout deal in 2007 left it too shaky to survive, throwing up another possible hurdle to the media company's efforts to exit bankruptcy protection after nearly 20 months.

The investigator, Kenneth Klee, said in a report Monday that it's "highly likely" that Tribune was "rendered insolvent and without adequate capital" as a result of the second half of the debt-reliant deal, which was led by real-estate investor Sam Zell. The company wasn't able to handle the debt load as the economy turned south, and Tribune filed for bankruptcy in December 2008.

Mr. Klee's findings could embolden a group of creditors that have sought to unravel Tribune's plan to exit bankruptcy later this summer largely owned by a group of financial firms including J.P. Morgan and distressed asset fund Angelo Gordon & Co.

"It's a lengthy document and we will defer comment until we've had the opportunity to review it," Tribune said in a statement. Representatives for J.P. Morgan and Mr. Zell declined to comment.

The independent probe was spurred last summer by a group of bondholders who claimed the buyout was a "fraudulent conveyance" that from the start left Tribune insolvent, and that banks backing the transactions, led by J.P. Morgan Chase & Co., agreed to complete a deal they should have known would leave the company near bankruptcy. "Fraudulent conveyance" is a legal term under which creditors can argue a buyout overloaded a company with debt, leaving it unable to meet its obligations.

Tribune's management, board and 2007 financial advisers are cast in a harsh light in Mr. Klee's report. He said that part of financial projections made by Tribune management in October 2007 were too rosy and, while not deceitful "bears the earmarks of a conscious effort to counterbalance the decline in Tribune's 2007 financial performance and other negative trends in Tribune's business, in order to furnish a source of additional value to support a solvency conclusion."

The company needed to get a clean bill of financial health from a firm, Valuation Research Corp., before the buyout deal could move forward. The valuation firm couldn't be reached Monday evening.

Mr. Klee found no evidence that Mr. Zell or Tribune's lenders aided and abetted possible breaches of fiduciary duty by the company's board. Mr. Klee said there were no suggestions Tribune's board members were knowingly dishonest about the company's financial health or financial projections.

Mr. Klee said he worked "nearly around the clock" since his appointment on April 30 to prepare the report, which runs more than 600 pages. He said he interviewed dozens of deal participants, including Mr. Zell and J.P. Morgan Chief Executive Jamie Dimon.

Mr. Klee described frustrations in compiling his report such as requests by buyout participants to classify even innocuous documents as highly confidential, and scores of pages at a time are left blank because they have been redacted.

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DEAL JOURNAL | JULY 28, 2010

Examiner Slams Firm That Valued Tribune Buyout

By MIKE SPECTOR And SHIRA OVIDE

A court-ordered probe of Tribune Co.'s $8.2 billion buyout casts a harsh light on a little-known valuation firm that proved to be a pivotal player in the failed deal.

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Bloomberg News

Tribune Co. was saddled with debt in a deal to go private led by investor Sam Zell, above, shown speaking at a conference in New York in May.

The firm, Valuation Research Corp., gave Tribune a clean bill of financial health in late 2007, clearing the media conglomerate to go private in a deal led by real-estate investor Sam Zell. But the transaction saddled the newspaper-and-television company with unsustainable debt, and Tribune filed for bankruptcy protection less than a year later.

A bankruptcy-court examiner slammed Valuation Research's methods in a report filed late Monday. He also assailed Tribune's board for not being more skeptical of the firm's judgments about the media conglomerate's ability to handle additional debt.

The examiner, Kenneth Klee, said his three-month review of the circumstances surrounding the Tribune buyout found it "highly likely" that Tribune was "rendered insolvent and without adequate capital" as a result of the second part of the debt-heavy deal. Tribune took on about $3.6 billion in addition debt in December 2007 to complete Mr. Zell's takeover.

Mr. Klee called Valuation Research's solvency opinion—required to allow Mr. Zell's deal to close—"implausible." He left open the question of whether Valuation Research "aided and abetted a breach of fiduciary duty or committed professional malpractice."

Valuation Research didn't respond to several requests for comment. The firm, which has offices in Milwaukee, New York and San Francisco, has assessed the value of a state-controlled liquor system in North Carolina and advised financial-services company vFinance Inc. in its 2008 merger with National Holdings Corp.

Many details of Mr. Klee's findings were redacted, making it difficult to fully assess Valuation Research's work in the Tribune case. People involved in Tribune's buyout marked troves of documents as confidential. Mr. Klee said he viewed some of the designations as "absurd," since some of the documents had been previously filed publicly with the Securities and Exchange Commission. Mr. Klee is pushing to have his full report released to the public.

Tribune said Tuesday it was "premature" to comment about the report while much of it is redacted. "We have reviewed the summary conclusions contained in the report, and from what we know now, we agree with some of his assessments and disagree with others," Tribune Chief Executive Randy Michaels and Chief Operating Officer Gerry Spector said in a note to employees on Tuesday. The company declined to elaborate on the executives' comments.

The executives said in the memo that the company is moving forward with its plans to exit from bankruptcy. Those plans involve turning over control of the company to a group of financial firms, including J.P. Morgan Chase & Co. and distressed-investment firm Angelo Gordon & Co.

In the Tribune-buyout deal, Mr. Klee said Valuation Research's engagement letter required the firm to use definitions of "fair market value" and "fair saleable value" that bucked "well-established principles of sound valuation."

Mr. Klee also said Valuation Research's report in December 2007 implied a midpoint share value of $39. That was well above the $34 that Mr. Zell's offer was worth, and the $27-to-$30 per-share range where it had traded in the prior month. Valuation Research's opinion was "highly suspect," Mr. Klee wrote.

Mr. Klee also blamed Tribune's board and a special committee charged with pursuing deals for the company for not viewing Valuation Research's work with enough skepticism. For instance, the examiner said, the board and special committee didn't seek any outside input about the reasonableness of Valuation Research's opinion.

The examiner said he found evidence that Tribune senior management "failed to apprise" the board and the special committee about important information related to October 2007 financial projections on which Valuation Research relied. Mr. Klee said he found no proof that the information was "purposely withheld" from the Tribune board members, but he said he found it "implausible" that the lack of information was "unintentional."

Tribune's efforts to obtain the solvency opinion were "marred by dishonesty and lack of candor," Mr. Klee wrote.

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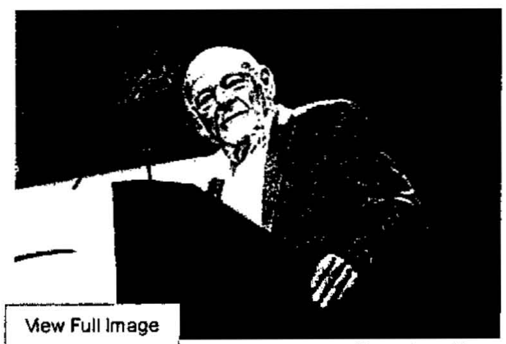
MEDIA & MARKETING | AUGUST 3, 2010

Early Doubts on Tribune Deal

Investment Bank in 2007 Declined to Endorse the Buyout, Which Later Soured

By MIKE SPECTOR And SHIRA OVIDE

An investment bank declined to give Tribune Co. a clean bill of financial health in 2007 that would have cleared the way for Sam Zell's $8.2 billion leveraged buyout of the media conglomerate, people familiar with the matter said.



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Bloomberg News

BRACING NEWS: Sam Zell, speaking at a conference in May.

Houlihan Lokey, a Los Angeles-based bank, rejected overtures from Tribune around March 2007 to provide what is known as a "solvency opinion" that would label Mr. Zell's takeover financially sound, these people said. Houlihan believed the deal would saddle the newspaper-and-television company with too much debt, they said.

Solvency opinions often are sought by corporate boards or lenders to provide comfort that a company can handle the obligations incurred in a leveraged deal. Lenders, in particular, want to be assured their investments will be safe from litigation in the event the company seeks bankruptcy protection.

In highly leveraged deals such as Tribune's, these opinions are sometimes required for the transaction to close.

Tribune needed solvency opinions to complete Mr. Zell's buyout. Houlihan was concerned about Tribune's financial health to begin with, but also the declining fortunes of the newspaper industry, one of the people said. Houlihan viewed Mr. Zell's deal as "DOA" and felt it was "going to fail," this person said.

Tribune instead turned to a smaller firm to get a solvency opinion, Valuation

Research Corp. A bankruptcy-court examiner criticized Valuation Research in a recent report, saying the firm used faulty methods to reach its conclusions.

Tribune declined to comment. Valuation Research didn't return a request for comment.

Houlihan's refusal to provide Tribune with an initial solvency opinion shows how doubts about the deal surfaced well before the first round of financing in spring 2007 that put Mr. Zell's takeover in motion.

Tribune's debt soared to nearly $13 billion after the full deal closed in December 2007, an amount that proved unsustainable. Tribune filed for bankruptcy protection less than a year later.

A bankruptcy-court examiner found it "highly likely" that the second, and final, part of the deal left Tribune "rendered insolvent and without adequate capital." Tribune took on about $3.6 billion in additional debt during that final step of the transaction in December 2007, after having taken on more than $7 billion earlier in the year to start cashing out shareholders and get the deal under way.

Upon learning of Houlihan's decision, Mr. Zell contacted Houlihan executives to ask why they were holding up the deal, according to people familiar with the matter.

A person familiar with the matter said that Mr. Zell was frustrated that Houlihan had turned down the assignment, because the bank had been trying to work with Mr. Zell for some time.

The findings by the examiner, Kenneth Klee, were well received by some creditors, who believe that the buyout constituted a "fraudulent transfer" that should wipe out recoveries for banks that backed the deal.

Mr. Klee called Valuation Research's solvency opinion "highly suspect." He also faulted Tribune's board for not being more skeptical of the firm's findings. Much of the report is redacted, making it difficult to assess Mr. Klee's findings in detail. A judge will hear arguments Tuesday on whether to release the full report to the public.

Tribune on Monday declined to comment about Mr. Klee's report.

Tribune's bank lenders and senior bondholders reached a settlement to avoid litigation over the deal and speed Tribune's bankruptcy exit. But Mr. Klee's report has made the situation more fluid, with a lawyer for one set of creditors saying in court last week that the "settlement is dead."

The company's senior bonds are trading at around 34 cents on the dollar, up from roughly 26 cents before Mr. Klee's report, as lower-ranking creditors bet that debts owed to some of the banks that backed Mr. Zell's deal could be clawed back.

Write to Mike Spector at mike.spector@wsj.com and Shira Ovide at shira.ovide@wsj.com

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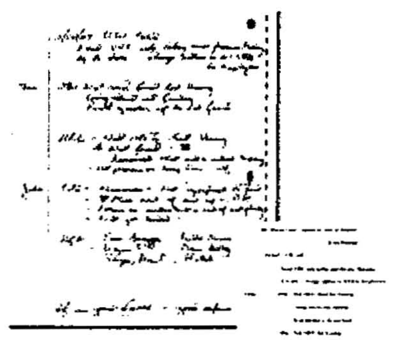
AUGUST 3, 2010, 7:50 PM ET

Citi, Zell and Tribune: Smelled 'Like Divorce Work.'

It was the LBO-divorce that didn't happen — but maybe it should have.

Citigroup thought about breaking up with Sam Zell's ultimately disastrous takeover of Tribune Co. just weeks before the deal closed — at least that is the strong suggestion from bankruptcy-court examiner Kenneth Klee.

The financial crisis is replete with examples of would've, could've, should've. Lehman Brothers doubling down on commercial real-estate. Goldman Sachs failing to tell investors in a CDO that some assets were picked by a hedge fund that bet against it. Pretty much any bullish bet on subprime mortgages.



Still, funding Zell's $8.2 billion takeover of Tribune is high on the list of boom-era clunkers.

Citigroup was one of several big Wall Street banks backing the deal. The LBO saddled the newspaper-and-television conglomerate with unsustainable debt — obligations soared to nearly $13 billion—and Zell had to put Tribune in bankruptcy court.

Klee found that the deal left Tribune "rendered insolvent and without adequate capital"—a finding with big implications for the company's creditors. Already, Tribune is reworking its reorganization plan amid the report's claims, the company's bankruptcy lawyer told a judge Tuesday.

As the deal's witching hour approached in late 2007, Citigroup apparently became concerned about Tribune's financial health and wanted out—in any event, that was the message received from other bankers.

A Citigroup spokeswoman said the bank's "conduct was entirely appropriate in this matter."

According to Klee's report, Citigroup contacted Houlihan Lokey--a Los Angeles investment bank known for working on so-called solvency opinions in deals involving tons of debt—to see if the firm would do a "solvency-related engagement."

The job, according to an email by Houlihan co-CEO Scott Beiser, "smell[ed] like divorce work."

Ben Buettell, another Houlihan banker, wrote an email saying that one of his colleagues had received a phone call from Citigroup's general counsel: "She was calling to see if we could be helpful in assessing the solvency of Tribune Company....The good news is that we would not be hired to deliver a solvency opinion, but if we end up where I think we all know we would end up with our analysis, we may be the ones to 'kill the deal' so to speak and not certain we want to be involved in that mess."

Tribune needed a clean bill of health—a good solvency opinion—to close the deal with banks including J.P.

Morgan Chase, Citigroup, Merrill Lynch and Bank of America. Had Houlihan done work showing the deal would make Tribune insolvent—or at least leave it in pretty shaky condition—Zell's deal might have started to fall apart.

Even earlier, in October 2007, Citigroup expressed concern that Tribune's "cost cutting program [is] not fully baked" and general "worrie[s] about newspaper projections." Klee said the lead banks all were aware of the "significant possibility" the deal would leave Tribune insolvent.

Even so, when the banks kibitzed on a call in December 2007, they appeared ready to do the deal—except for Merrill and Citigroup, which held reservations. (Click here to see one banker's notes from the call contained in the examiner's report.).

In the end, Citigroup and the other banks went ahead with the deal, and, well, Deal Journal already mentioned what happened less than a year later. Klee did note in his report that there were contractual obligations that influenced the banks to do through with the transaction.

Now the banks and bondholders—not to mention hedge funds that bought the distressed company's paper —are fighting in court over Tribune's carcass. Tribune hopes to use its remaining value to satisfy some debts and emerge from bankruptcy owned mostly by the banks—not exactly how the Wall Street powerhouses drew it up.

August 20, 2010

Tribune Reorganization Talks With Its Creditors Disintegrate

By JEREMY W. PETERS

The troubled progress of the Tribune Company bankruptcy suffered another blow on Friday as a lawyer for the publishing giant said that negotiations with creditors had broken down.

The failure to reach a resolution ensures that the bankruptcy, now in its second year, will drag on longer, raising the prospect of dueling litigation if Tribune cannot reach agreements with the lenders and bondholders it has to repay.

Tribune, which owns The Chicago Tribune, The Los Angeles Times and a number of television stations, had hoped that a Delaware bankruptcy court would approve its reorganization plan as early as this month. But now it appears that the process will go on until at least November, when a judge is scheduled to hold hearings on the reorganization plan Tribune is putting together.

Two creditors, JPMorgan Chase and the investment firm Angelo, Gordon & Company dropped out of the agreement, which would have made them part owners of the reorganized company. At a hearing in Delaware on Friday, James Conlan, Tribune's attorney, said the company "had tried mightily to bring the parties together." But he said those efforts failed.

For now, Tribune will go it alone developing a plan, which it will submit to the court by next Friday. Creditors eventually vote on whether to accept the settlements the company proposes and could put forth plans of their own.

"This process is moving more slowly and has become noisier than we had hoped," Randy Michaels, Tribune's chief executive, and Gerald A. Spector, the company's chief operating officer, said in an e-mail to employees on Friday that sought to reassure them of the company's stability. "Next week, we'll file our monthly operating report for July and once again, our financial results will be strong. All of our media businesses are profitable, and our creditors recognize how well we are performing."

Adding another twist, a lawyer for a group of creditors told the judge on Friday that his clients were prepared to move forward with a lawsuit claiming the sale of Tribune to the real estate mogul Samuel Zell was a fraud because it saddled the company with too much debt.

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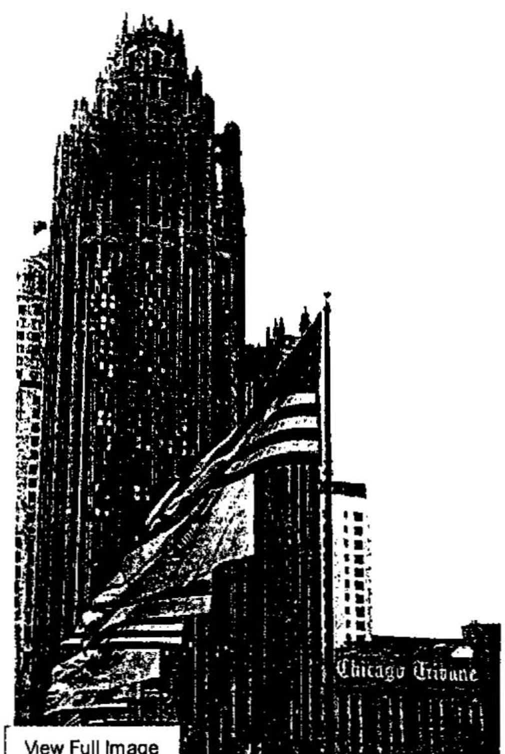
MEDIA & MARKETING | AUGUST 21, 2010

Creditors Scuttle Tribune's Plan

By PEG BRICKLEY

WILMINGTON, Del.—Tribune Co. will recraft its Chapter 11 reorganization plan in an effort to broker peace among creditors, company attorney James Conlan said Friday after key supporters of the plan walked away.



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Reuters

Tribune's Chicago headquarters

The media company's revised plan could foreshadow trouble for top-ranking lenders tied to the 2007 leveraged buyout that pushed Tribune into financial trouble. Mr. Conlan, of law firm Sidley Austin LLP, said if no accord is reached on the amended restructuring plan, Tribune will consider suing over the LBO.

The most likely targets of a lawsuit are lenders who, until recently, supported Tribune's Chapter 11 plan and were in line to take over the company, had the plan gone through. That includes J.P. Morgan Chase & Co., which yanked its support from Tribune's plan this week.

A bankruptcy probe that found $3.6 billion of Tribune's top-ranking debt was likely tainted with fraud touched off a frenzy of shifting alliances in a bankruptcy case that has long been contentious. Tribune's Chapter 11 plan was designed to shield J.P. Morgan, Tribune executives and others connected to the LBO from damage claims.

Now Tribune is in one camp, leading negotiations with creditors who have been trying to get the company to sue over the LBO. Former plan supporters J.P. Morgan and the official committee of unsecured creditors, however, are pondering the prospect of filing a Chapter 11 reorganization plan of their own without the company's official backing, they said.

Tribune plans to file its new Chapter 11 exit plan with the court by Friday. The company is trying to rally enough support to push the plan through in November, Mr. Conlan said.

Word that Tribune will amend its plan came as a surprise to the official committee of unsecured creditors and to top-ranking lenders who previously backed the company's plan, their attorneys said in court.

J.P. Morgan and Angelo Gordon & Co. recently pulled out of an agreement that called on them to vote in favor of Tribune's Chapter 11 plan, according to Daniel Golden, an attorney representing Centerbridge Partners, another supporter of the Tribune Chapter 11 plan.

On Friday, U.S. Bankruptcy Judge Kevin Carey formally ended the appointment of Kenneth Klee, the investigator who conducted the probe that shook up Tribune's bankruptcy. His report gave some creditors ammunition to push for better financial recovery than they had been offered under Tribune's original plan of reorganization.

Mr. Klee wanted a formal end to his role, which began when the judge asked for help in evaluating whether Tribune's plan embodied a reasonable settlement of legal claims over the ill-fated LBO.

"He doesn't want to be your piñata," Judge Carey told attorneys for the company.

Tribune, which publishes the Los Angeles Times, Baltimore Sun, Chicago Tribune and other newspapers and operates a string of broadcast outlets, filed for Chapter 11 protection less than a year after the LBO. Mr. Conlan said the company is targeting a Nov. 8 confirmation hearing for its revised Chapter 11 plan.

Write to Peg Brickley at peg.brickley@dowjones.com

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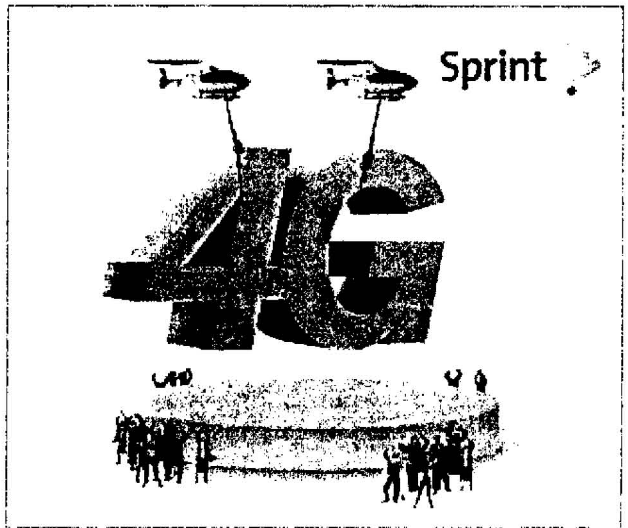
Time running short for Tribune Co. management

Media company is scheduled to file a revised restructuring plan Friday that may be the group's last, best chance to broker a friendly compromise

By Michael Oneal, Tribune reporter

8:13 PM CDT, August 26, 2010

After 20 months and millions in attorney fees, time is running short on Tribune Co.'s campaign to control its own destiny in bankruptcy court.



Faced with warring creditors and ample evidence that the most powerful among them are eager to take control of the Chapter 11 process, the Chicago-based media company's management is scheduled to file a revised restructuring plan on Friday that may prove to be the group's last, best chance to broker a friendly compromise in the chaotic case.

Wednesday's news that senior creditors are talking with former Walt Disney Co. Chairman Michael Eisner and other candidates about managing the company signaled their willingness to push aside Tribune Co. Chairman Sam Zell and Chief Executive Randy Michaels. And creditors have been blunt about their readiness to file alternative restructuring schemes without management's support.

The Tribune team's ability to avoid being marginalized in its own case will likely rest on how many recalcitrant creditors, both senior and junior, it can win over with Friday's plan.

Tribune Co. owns the Chicago Tribune, Los Angeles Times and other media properties.

A week ago, settlement talks collapsed over several key questions, sources said. How could a plan acceptable to senior creditors also appease a junior group emboldened by an independent examiner's finding that the company's 2007 leveraged buyout may have left Tribune Co. insolvent? And would creditors generally accept provisions protecting Tribune Co. directors and officers from buyout-related litigation?

Several sources said recent talks have focused on solving the first problem with a legal device called a litigation trust, which would isolate the company's financial and operational restructuring from the thicket of legal claims that has been bogging down the case.

Such a trust would allow negotiations to focus on reworking the company's capital structure so it could emerge from bankruptcy court without legal and financial baggage. The legal claims, meanwhile, would be put in the trust, which would be owned by a designated group of creditors. They would be free to pursue the claims and reap whatever recovery they could.

"Each one of these trusts has a custom design," said Douglas Baird, a bankruptcy expert at the University of Chicago Law School. "The idea is to isolate the legal issues so the company can go on its merry way."

At the heart of the case are charges originally raised by Tribune Co.'s junior creditors that the LBO was an example of fraudulent conveyance, meaning the deal itself rendered the company insolvent. If that could be proven, claims held by lenders could be wiped out, and the estate could seek to claw back payments made to selling shareholders. Junior creditors also have claimed that Tribune Co.'s directors and officers, including Zell, breached their fiduciary duty to investors.

In April, Tribune Co. and several of its largest creditors crafted a settlement of those potential claims that would have given senior creditors like JPMorgan Chase and distressed-debt hedge fund Angelo, Gordon & Co. 91.2 percent of the company's equity. Junior bondholders would have received a 7.4 percent stake worth $450 million. The lenders, directors, officers and shareholders would have all been given full indemnification against all other potential claims.

Although the plan was billed as a global settlement, it met immediate opposition from a splinter group of senior creditors led by Oaktree Capital Management, a distressed-debt investor based in Los Angeles. Oaktree said it had no exposure to the LBO claims. Yet it was being asked to fund settlement payments to junior creditors in return for indemnification guarantees benefitting those who may have exposure, like JPMorgan and Zell.

That standoff held until July, when court-appointed independent examiner Kenneth Klee issued a massive report supporting some of the LBO claims and debunking others. Klee's findings destabilized the fragile settlement struck in the April and launched a new round of negotiations.

In recent weeks, sources close to the situation said, JPMorgan, Angelo Gordon and Oaktree finally came together around a plan based on a litigation trust. The junior creditors would get something less than $450 million in value upfront. But they would be the beneficiaries of a trust containing claims that the Klee report suggested had significant potential value.

While the company tentatively signed on to the plan, the Official Committee of Unsecured Creditors in the case demanded adjustments to the trust that would broaden its scope, thereby increasing its potential value. An important group of junior bondholders led by Centerbridge Partners, meanwhile, never bought in. One big sticking point: How to assign value to the trust and balance it against the amount of equity the junior group would get.

Sources said senior and junior creditors also balked when Tribune Co. asked that the reorganized company provide unlimited indemnification for directors and officers, protecting them against potential litigation coming out of the trust. Some feared the provision would leave the company too exposed.

With a multibillionaire like Zell on the board, plaintiffs could ask for the world in potential lawsuits. Although the probability might be low, Zell's wealth made a windfall judgment possible, and that could precipitate a new financial crisis if the company were locked into paying it.

All of this raised a broader problem. How could Tribune Co. management and the board negotiate issues involving litigation when members of both groups are potential targets of those claims?

Sources said Tribune plans to deal with that problem by setting up an independent board committee that would make decisions for the estate on issues related to the restructuring plan. The committee would include directors with no connection to the LBO: Mark Shapiro, former chief executive of Six Flags Inc.; Maggie Wilderotter, chief executive of Frontier Communications Corp.; Jeffrey Berg, chairman of International Creative Management Inc.; and Frank Wood, chief executive of Secret Communications and formerly chief executive of Jacor Communications, once owned by Zell.

Several sources close to the talks also expect Tribune Co. to stick with the litigation trust idea in the new plan since it is the easiest way to keep the case from getting bogged down in the quicksand of litigation.

"We continue working on a restructuring plan that is fair to the interests of all parties and can be confirmed by the court," a Tribune Co. spokesman said.

Meanwhile, Michaels tried to focus attention on other things. Tribune Co. on Thursday issued a press release pointing out that it had generated $100 million more in operating cash flow though July this year than it did in 2009.

"There's been a lot of media speculation lately regarding our Chapter 11 process, and the temptation is to let it distract us," Michaels wrote in a note to employees. "Try not to pay attention to the outside noise."

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www.chicagotribune.com/business/ct-biz-0902-tribune-new-20100901,0,5063465.story

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Mediator added to Tribune Co. bankruptcy mix

Compromise sought to move stalemated case forward

By Michael Oneal, Tribune reporter

8:49 PM CDT, September 1, 2010

After nearly 21 months of negotiations and little hope of a settlement, the judge in Tribune Co.'s stalemated bankruptcy case appointed a mediator Wednesday, hoping an independent third party can finally broker peace among the Chicago-based media company and its creditors.

The move follows the unraveling of a company-sponsored settlement plan several weeks ago and shows that efforts to find a new compromise have collapsed amid escalating bickering over legal claims tied to the disastrous 2007 leveraged buyout led by Tribune Co. Chairman Sam Zell.

Tribune Co. had set an Aug. 27 deadline for filing amendments to its failed settlement and restructuring plan, changes that it hoped would win support of the senior and junior creditors in the case.

But recognizing that no deal was possible earlier in the week, sources said, the company asked U.S. Bankruptcy Judge Kevin Carey for a mediator, prompting a meeting with creditors in Delaware Aug. 26 to hammer out the details of a mediation process agreeable to all parties.

The order calls for a nonbinding mediation led by Carey's colleague on the court, U.S. Bankruptcy Judge Kevin Gross. There is no set timetable for the process, but each of the parties in the case will have until mid-September to provide Gross with a five-page plan it thinks provides a fair settlement of the legal issues surrounding the 2007 buyout.

Tribune Co. owns the Chicago Tribune, Los Angeles Times and other media properties.

Carey's order set places at a crowded negotiating table for Tribune Co.; the unsecured creditors committee; JPMorgan Chase (as agent for the senior lenders to the buyout); hedge fund Angelo, Gordon & Co.; a group of senior lenders led by hedge fund Oaktree Capital Management; a new group of senior lenders represented by New York law firm Olshan Grundman Frome Rosenzweig & Wolosky; owners of the bridge loan debt represented by Wells Fargo Bank; junior creditors led by Law Debenture Trust Co., Centerbridge Credit

Advisors and Deutsche Bank Trust Co.; a legal entity controlled by Zell; and a group of junior debt holders led by Wilmington Trust Co.

Bankruptcy experts said Gross faces a stiff challenge in trying to find his way through this tangle of competing interests. Success in bankruptcy mediation, if it comes, often depends on the creativity and guile of the mediator, said James White, a commercial law expert at the University of Michigan Law School, who has frequently served in that role.

Parties that have negotiated for a long time before a mediator appears often are clinging to hardened positions. The key is to imagine a solution they haven't thought of or figure out a way to apply pressure to those who are being intransigent, White said.

The order requires the various parties in the Tribune Co. case to divulge confidential information to Gross about the size of their ownership stakes and how long they have owned their positions. They also have to disclose to the mediator whether they have hedged their positions. This sort of information, experts said, can be especially valuable because it allows the mediator to see the possibility of compromise where less-informed parties on opposite sides of the table can't.

Gross will be allowed to consult with Kenneth Klee, the Los Angeles lawyer who was independent examiner in the case. Klee's report, issued in late July, is what torpedoed the Tribune Co. plan. The report partially supported junior creditor claims at the center of the case that Zell's 2007 buyout left Tribune Co. insolvent. Any settlement brokered by Gross will hinge on an agreement to resolve those claims.

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BUSINESS WORLD | SEPTEMBER 1, 2010

Zell's Hell

Why he should have seen the Trib debacle coming.

By HOLMAN W. JENKINS, JR.

Fortunately Sam Zell has such reserves of reputation that his image is likely to survive his debacle in the newspaper business. And debacle is a charitable word. Mr. Zell is the celebrated real-estate investor who, in 2007, led a buyout of the Tribune Co., owner of such papers as the Chicago Tribune, Los Angeles Times and Baltimore Sun, along with 23 TV stations and (at the time) the Chicago Cubs. Less than a year later, the company was in Chapter 11. Now a special bankruptcy examiner has found a plausible suspicion of fraud on the part of Trib management in the original transaction.

Boom. Blown up is management's latest plan to bring the company out of bankruptcy, partly thanks to a provision that would have indemnified Mr. Zell and Trib management from legal blowback from the original LBO deal.

Mr. Zell, after four decades in business, deserves his stellar reputation based on his proven financial acumen, his healthy libertarian leanings and his discerning eye for Italian motorcycles. But the Trib deal was a mistake he walked right into.

The debacle began when the Chandler Trusts, owner of a big chunk of Tribune shares, saw the media giant floundering and wanted out. Needed was a sucker to borrow a bunch of money and buy the company from its existing shareholders at a rich price. That sucker wasn't so much found as created in the form of an ESOP proposed by Mr. Zell—an employee stock ownership plan, which enjoys federal tax favors that supposedly would justify top dollar to Chandler and other shareholders.

To call the resulting deal a pump-and-dump operation, however softened by the warm and cuddly ESOP connotations, may be unduly harsh. But Mr. Zell, Trib management and

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The Tribune Co. went bankrupt months after investor Sam Zell's purchase.

Chandler essentially concocted a buyer, and used various for-hire valuation opinions to justify that their buyer-manqué was getting a good deal.

Yes, blame the federal tax code for creating the ESOP loophole in the first place. And unnamed co-conspirators were the LBO lenders, led by J.P. Morgan, who in the absence of a real buyer were the closest facsimile to a skeptical counterparty. These lenders were smart enough to see how ESOP law was being exploited in quasi self-dealing fashion to let Chandler get out on favorable terms.

In the aftermath, J.P. Morgan's Jamie Dimon told bankruptcy investigators, "Sam until very late in the game thought he was going to make a lot of money on this." But Mr. Zell's nose failed him not just on the deal's financial prospects. He appears to have overlooked an important downside—if things didn't go well, the deal could easily be portrayed as not just ill-advised but sleazy and reckless. A big giveaway should have been the loopily fancy incentive to Mr. Zell himself (a 15-year option to buy 40% of the firm for $500 million) for presiding over an LBO so risky to the company and so friendly to Chandler.

Let us hasten to note that the finding of the special examiner Kenneth Klee is much narrower than our sweeping critique. Mr. Klee, a lawyer, is concerned with the legalese of the deal, not its larger gestalt. In his view, only the second stage of the buyout—requiring $3.6 billion in debt in December 2007, after $8 billion in June—is vulnerable to charges of "fraudulent transfer." By then, with markets unraveling and the Trib's cash flow deteriorating, he suggests a future court might find that the LBO parties should have known the company could not survive its debts.

Mr. Klee's report amounts to 1,000-plus pages, but especially notable are sworn statements by Morgan Stanley personnel that a Trib board special committee's draft minutes basically lie when claiming Morgan Stanley had endorsed an outside "solvency" opinion saying Trib would be fine. Hoo boy.

Let us quickly add that the Klee report does not suggest Mr. Zell himself was responsible for any misrepresentation. Perhaps the saddest outcome is that Mr. Zell never got a chance to figure out how to save big-city newspapers. Such newspapers have been going down the tubes because—we beg to suggest—they have failed to grasp the local e-commerce opportunity that is their natural forte. The Chicago Trib, with its ties to powerful local radio and TV franchises, should have been a leader.

Even in the Internet age, everybody has to live somewhere. Only a local news staff can cover the car accident that's tying up traffic or the school board meeting that descends into fisticuffs. But a local news service is also in a useful position to ransack the Web for its vastly growing cornucopia of information that is of particular value locally.

To wit, if you're the Chicago Tribune, why not find a way to tap the Facebook profiles of Chicago-area residents, or the Twitter postings of locally interesting people, or the Yelp reviews of local businesses?

By adding this stuff to what a local newspaper already does, and then by synthesizing new services and coverage from the two, local news (we persist in believing) has an exceptionally promising future that it just hasn't discovered yet.